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# Much Ado About Diaspora Investment: *Potential*

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<http://www.gwu.edu/~elliott/researchcenters/diaspora.cfm>

# Many Forms of Diaspora Investment

## *Diaspora Direct Investment (DDI)*

- **Creating manufacturing facilities for local and/or export sale**
- **Setting up subsidiaries for existing businesses**
- **Establishing service operations**

## *Diaspora Portfolio Investment (DPI)*

- **Contributing to VC fund**
- **Purchasing mutual funds or other stock**
- **Purchasing homeland bonds**

**“With the help of the diaspora, China has won the race to be the world’s factory. With the help of the diaspora, India could be the world’s technology lab.”**

- 1979-1995 China DDI 80% FDI (Wei & Balasubramanyam, 2006)
- 1991-2001 India DDI 26% FDI (Wei & Balasubramanyam, 2006)
- & Many others!
  - ▶ 1998-2004 Armenia 25% FDI (Hergnyan & Makaryan, 2006)
  - ▶ Post-conflict investments in Afghanistan, Liberia, Sierra Leon, etc.

	<b>Typical Foreign Investor</b>	<b>Typical Diaspora Investor</b>
<i>MOTIVATION TO INVEST</i>	Financial	<b>Financial *AND* Social &amp; Emotional</b>
<i>INTERNATIONAL EXPERIENCE</i>	Significant	<b>None</b>
<i>ENTERPRISE SIZE</i>	Large Firms	<b>Micro, SME, &amp; Large Firms</b>
<i>LEVEL OF LOCAL MARKET KNOWLEDGE</i>	Little	<b>Moderate</b>
<i>STRENGTH OF LOCAL SOCIAL NETWORKS</i>	None	<b>Moderate</b>
<i>LOCUS OF ORGANIZATIONAL CONTROL</i>	Operation with Some Influence from Headquarters	<b>National or Transnational Operation</b>

# FDI is Often Heralded as Key Driver of Economic Progress

“FDI triggers technology spillovers, assists human capital formation, contributes to international trade integration, helps create a more competitive business environment, and enhances enterprise development. All of these contribute to higher economic growth, which is the most potent tool for alleviating poverty”

(OECD, 2002: 5)

# The “Dark Side” of FDI

- **Not always efficient** (Krugman, 1998)
- **May crowd out domestic investment and displace local firms in production, service, and financial markets**
  - ▶ *Reducing local competition and leading to lower quality products and inflated prices in local markets* (Moran, 1998)
- **May crowd out domestic borrowing capital**
  - ▶ *Increasing interest rates and the cost of capital to business* (Caves, 1996)
- **UNCTAD (2006) reports that 1 in 5 FDI policy changes were unfavorable to FDI -- highest recorded**

# Potential Benefits of Diaspora Investment

- ✓ Be less likely to extract capital in periods of political and/or economic risk
- ✓ Be less likely to repatriate profits and more likely to reinvest in existing firms and/or establishing new operations and ventures in their country-of-origin
- ✓ Be more likely to invest in greenfield activities rather than merely merging or acquiring local firms, thereby creating positive employment effects
- ✓ Prefer local inputs and employees over imported products and labor

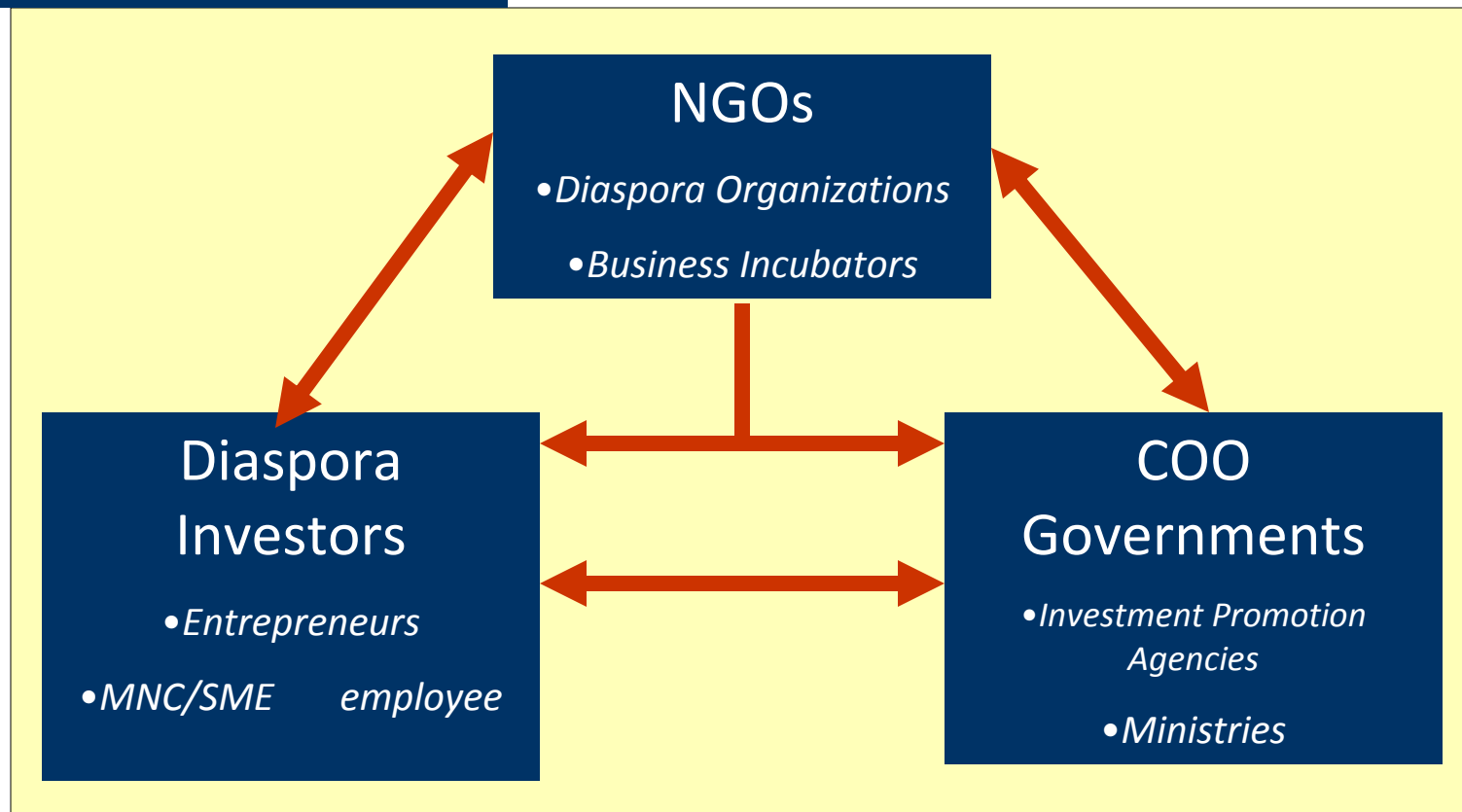
# Potential Benefits of Diaspora Investment

- ✓ **Seek to cultivate and strengthen local supply chains**
- ✓ **Engage in innovative socially and environmentally responsible business practices**
- ✓ **Provide social capital linkages for local firms to external supply chains and markets, thus enhancing opportunities for local firm internationalization**
- ✓ **Enhance local human capital through knowledge spillovers and social remittances**



# Promoting Diaspora Investment

Multilaterals, Donors



# Diaspora Capital Investment Project

*WHAT ARE THE NECESSARY FACILITATING INSTITUTIONS?  
WHAT ARE THE SPECIFIC INVESTMENT FLOWS?*

PRE-  
INVESTMENT

INVESTMENT

POST-  
INVESTMENT

*WHAT IS THE MARKET POTENTIAL?  
WHAT ARE THE PSYCHOLOGICAL DRIVERS?*

*HOW CAN GOVTS ATTRACT DDI & D-ENTREP?*

*WHAT'S THE AFFECT ON  
INSTITUTIONS?*

*DIFFERENT BUS. ENVIRON.  
PERCEPTIONS?*

*QUALITATIVE DIFFERENCE  
OF DIASPORA INVESTMENT?*